

Government of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

QBE Optima Insurance Company of Puerto Rico
Examination Report
as of December 31, 2011

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Examiner

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

September 6, 2012

Ramón L. Cruz-Colón, CPCU, ARe, AU
Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2012-13 dated April 10, 2012, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk focused examination and financial affairs examination was made of the books, records, and financial condition of:

QBE Optima Insurance Company
1101 Muñoz Rivera Ave.
San Juan, Puerto Rico 00925

Wherever the designations "the Company" or "Optima" appear herein without qualification, it should be understood to indicate the QBE Optima Insurance Company. Wherever the designation "Department" appears herein without qualification, it should be understood to indicate the Puerto Rico Insurance Department. The examination was conducted at the Company's main administrative office located at 1101 Muñoz Rivera Avenue, San Juan, Puerto Rico.

SCOPE OF EXAMINATION

This examination covered the period from January 1, 2008, through December 31, 2011. Also, transactions occurring subsequent to this period were reviewed where deemed appropriate, by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2011. The examination included a review of income, disbursements and company records deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA").

This report was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement Instructions promulgated by the NAIC, with due regard to the statutory requirements of the insurance laws and rules of the Commonwealth of Puerto Rico.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement

Instructions when applicable to domestic state regulations. A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

HISTORY

The Company was incorporated on December 14, 2004 under the provisions of the Insurance Code of Puerto Rico and its operations consist principally of underwriting property, vehicle, marine, and transportation and casualty insurance. Substantially all of the business is conducted in Puerto Rico, which exposes the Company to geographic risk. The Company was a member of a holding company system, with the ultimate controlling parent, Optima Insurance Group owning a majority portion of the Company.

As of December 31, 2011, the Company has 1,000,000 shares of \$10 par value common stocks authorized and 350,000 shares issued and outstanding. The Company has no preferred stock authorized, issued or outstanding.

On February 8, 2012, after regulatory approval by the Commissioner of Insurance of Puerto Rico, the shareholders of the parent company sold all the issued and outstanding stock to QBE Latin America Insurance Holdings, S. L. (QBE) pursuant to a Stock Purchase Agreement. Upon closing of the transaction, the Company and the

parent company became wholly owned subsidiaries of QBE. Subsequently, the name of the Company was changed to QBE Optima Insurance Company.

Dividends to Stockholders

Dividends to common stock are paid as and if declared by the Board of Directors of the Company. Section 29.340 of Insurance Code of Puerto Rico provides that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of that part of its available surplus funds which is derived from any realized net profits on its business. The Company declared and paid common stock dividends of \$358,333 on June 30, 2011.

The Company was in compliance with the provisions of Section 29.340 of Insurance Code of Puerto Rico.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the Section 29.160 of the Insurance Code of Puerto Rico, the Board of Directors shall be held annually at the annual meeting of stockholders. The Company was in compliance with Section 29.160. As of the examination date, the directors of the Company were as follows:

Name	Title
Antonio J. Ortiz Santiago	President
Carlos A. Bruno Alvarado	Secretary
Gloria I. Benítez Torres	Director
José Mallén	Director
José R. Cestero	Sub-Secretary
Manuel A. Lebrón Fremaint	Sub-Treasurer
Pedro Benítez Bonilla	Treasurer

Officers

Pursuant to the Section 29.210 of the Insurance Code of Puerto Rico and the Company's by-laws, the Board of Directors (Board) appointed the officers. At December 31, 2011, the officers are comprised of the following:

Name	Title
Antonio J. Ortiz Santiago	President of the Board of Directors
Carlos A. Bruno Alvarado	Senior Vice President
Manuel A. Lebrón Fremaint	Chief Finance Officer & Senior Vice-President
Rafael Padial Cortés	Executive Vice President
Carlos F. Díaz Bello	Vice President Underwriting
María Ramírez Rodríguez	Operational Manager
Ricardo Berrios Gorbea	Vice President Information Systems
Jazmíz Báez Santos	Vice President Finance

Other Committee

Section 5(D) of the Rule XIV-A of the Regulations of Insurance Code of Puerto Rico requires every insurer to file annual audited financial reports as described in this Rule shall designate a group of individuals to constitute an audit committee. The Company failed to comply with Section 5(D) of the Rule XIV-A of the Regulations of Insurance Code of Puerto Rico.

CORPORATE RECORDS

The Board of Directors is responsible for providing general oversight over corporate governance matters, including the development and implementation of the appropriate governance policies and procedures. The Company is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

Minutes

The minutes of the Board, shareholder and certain internal committees were reviewed for the period under examination. In the review of the Company's Board of directors' minutes, it was noted that the Board did not approve the purchases and sales of securities. Section 6.040(2) of the Insurance Code of Puerto Rico provides that the board of directors shall certify in writing, through a formal resolution to be adopted at least once a year that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the board.

The Company's board of directors should approve all investment activity and include such approvals in the minutes of its meetings, pursuant to the provisions of Section 6.040(2) of Insurance Code of Puerto Rico.

Section 29.220(1) of the Insurance Code of Puerto Rico states that the Board of Directors shall authorize any salary, compensation or emoluments to any director, officer or employee which in the aggregate exceeds twelve thousand dollars (\$12,000) in any one year. For the period under examination, the Company did not comply with referenced Section, because it Board of Director did not authorize salary or compensation to employee.

Investment Plan

Section 6.040(1) of the Insurance Code of Puerto Rico provides, among other things, that the Board of Directors of the insurer shall adopt a written plan to acquire and maintain investments, and to outline investment practices. The Company adopted an investment plan, which was approved by the Company's Board of Directors.

However, Company's investment plan do not establish the professional qualifications of the persons who will make routine decisions to ensure investment competence and ethical conduct. The Company should amend its investment plan pursuant to Section 6.040(1), and to establish the professional qualifications of the persons who will make routine investment's decisions.

Section 6.040(3) of the Insurance Code of Puerto Rico states that at least every three months, or more often if necessary, the board of directors of the insurer or a duly authorized committee shall receive and review a summary report of the investment portfolio of the insurer, its investment activities and the investment practices.

In the review of the Company's board of directors' minutes, it was noted that the board or an authorized committee did not receive and review a summary report of the investment portfolio at least every three months. Therefore, the Company did not comply with Section 6.040(3) of the Insurance Code of Puerto Rico.

Action Plan - Antifraud

Section 27.230(3) of Insurance Code of Puerto Rico states that the Board of Directors of every insurer shall adopt a written action plan to detect, prevent and fight fraudulent acts in the insurance business. Such action plan shall contain at least a description of the personnel hired or employed by the Antifraud Investigations Unit to execute the procedures established to detect and investigate acts of fraud and the functions assigned to each.

In the review of the Company's Antifraud Plan, it was noted that the Plan did not include a description of the personnel hired or employed to execute the procedures

to detect and investigate acts of fraud. Therefore, the Company did not comply with Section 27.230(3) of the Insurance Code of Puerto Rico.

Conflict of Interest

The Company adopted a policy statement without requiring annual disclosure to conflict of interest questionnaires. The Company should require its directors, officers, and key employees to sign conflict of interest forms concerning items that could have an impact on the way the Company conducts business in accordance with Section 29.230 of Insurance Code of Puerto Rico.

Commitments and Contingencies

The Company is a member of the Puerto Rico Insurance Guaranty Association (the Association) and, as member, is obligated to provide funds for the settlement of claims and reimbursements of unearned premiums of insurance policies issued by insolvent insurance companies. The Company did not pay any assessments during the examination period.

Section 27.160 of the Insurance Code of Puerto Rico states that no person shall collect any sum as premium or charge for insurance, which insurance is not then provided or is not in due course to be provided by an insurance policy issued by an insurer as authorized.

Also, Section 38.160 of Insurance Code of Puerto Rico, establishes the rates and premiums charged on insurance policies to which Chapter 38 applies shall include that portion which is sufficient to recover an amount equal to the sums which the member insurer pays the Association, and such rates shall not be deemed excessive because they

contain an amount reasonably calculated to recoup the assessment paid by the member insurer.

The Company failed to comply with Sections 27.160 and 38.160 of the Insurance Code of Puerto Rico, because it recovers from its insured's amount in excess of the sums paid to Guaranty Association.

Additionally, pursuant to Rule LXIX of Insurance Code of Puerto Rico, the Company is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (JUA), which provides compulsory auto liability insurance to cover damages to motor vehicles of third parties as result of a traffic accident. These members participate in JUA profit and losses in proportion to said writings. During 2011 and 2010, the Company received approximately \$235,861, and \$203,845, respectively, from JUA, out of the total experience refund distributed.

Section 3.300 of Insurance Code of Puerto Rico, requires that every insurer shall keep full and accurate accounts and records of its assets, obligations, transactions, and affairs, with proper separation as to the different kinds of insurance transacted by it, in accordance with accounting methods and practices generally recognized in such business or approved by the Commissioner.

The Company has failed to comply with Section 3.300 of Insurance Code of Puerto Rico, because it did not separate properly records and accounts related with JUA.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to write business in Puerto Rico. As of the examination date, the Company was authorized to transact property and casualty insurance. Based on the lines of business for which the Company is licensed and Company's current capital structure, and pursuant to the requirements of Section 3.090 of the Insurance Code of Puerto Rico, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,800,000.

An insurer shall appoint and contract a manager, producer or general agent to represent the insurer in Puerto Rico to carry out those functions consistent with the Insurance Code of Puerto Rico.

Section 9.063(2) of the Insurance Code of Puerto Rico, requires that the appointment of a producer as authorized representative of an insurer shall be notified to the Commissioner in the manner prescribed by the latter within the fifteen (15) days following the date on which the contract is subscribed for such a purpose. The Company failed to comply with Section 9.063(2) of the Insurance Code of Puerto Rico.

Statutory Deposit

Pursuant to Section 3.151 of the Insurance Code of Puerto Rico, \$1,400,000 deposited with the Department in trust for the protection of the Company's policyholders and creditors, as required by the respective Insurance Codes.

Administration of Salvage and Recoveries

Section 4(A) of Rule LIII of the Regulations of the Insurance Code of Puerto Rico, requires that insurers handling yearly less than three hundred salvages, make the

necessary arrangements for the custody and stores of the salvages. Such arrangements must be informed to the Office of the Commissioner of Insurance as well as any other change performed by them. The Company did not comply with Section 4(A) of Rule LIII of the Regulations of the Insurance Code of Puerto Rico.

Pursuant to the provision of Section 5(D) of Rule LIII of the Regulation of Insurance Code of Puerto Rico, every insurer shall, at least, four times during a calendar year, publish a notice, in a newspaper of general circulation, containing the dates, hours and places where it will hold its auctions. This notice must be filed with the Office of the Commissioner of Insurance in accordance with Rule XVI.

The Company failed to file with the Commissioner notices relating with its auctions. The Company did not comply with Section 5(D) of Rule LIII of the Regulation of Insurance Code of Puerto Rico.

AFFILIATED COMPANIES

At December 31, 2011, the Company shares general and administrative expenses, such as computer systems and personnel with affiliated entities Colonial Insurance Agency, Inc., and Premier Warranty. It is noted that the Company did not have a formal write agreement. SSAP No. 25 Paragraph 6 of the NAIC Accounting Practices and Procedures states:

“Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be non-admitted, except to the extent this is specifically addressed by other statement of statutory accounting principles. If the due date is not addressed by the written agreement, any uncollected receivable is non-admitted”.

The Company failed to comply with Paragraph 6 of the SSAP No 25 of the NAIC Accounting Practices and Procedures. The Company should be formalizing a written agreement with its affiliate pursuant to the provisions of SSAP No. 25 Paragraph 6 of the NAIC Accounting Practices and Procedures and settle its obligations under the agreement.

During the Department's review of the Company's affiliates transactions, especially the parent holding's transactions, it was noted that the Company reported amounts over ninety (90) days as admitted assets. Pursuant to the provisions of SSAP No. 4 of the NAIC Accounting Practices and Procedures amounts over ninety (90) days shall be non-admitted assets. The Company was not in compliance with the provisions of SSAP No. 4 of the NAIC Accounting Practices and Procedures Manual.

General Agent Agreement

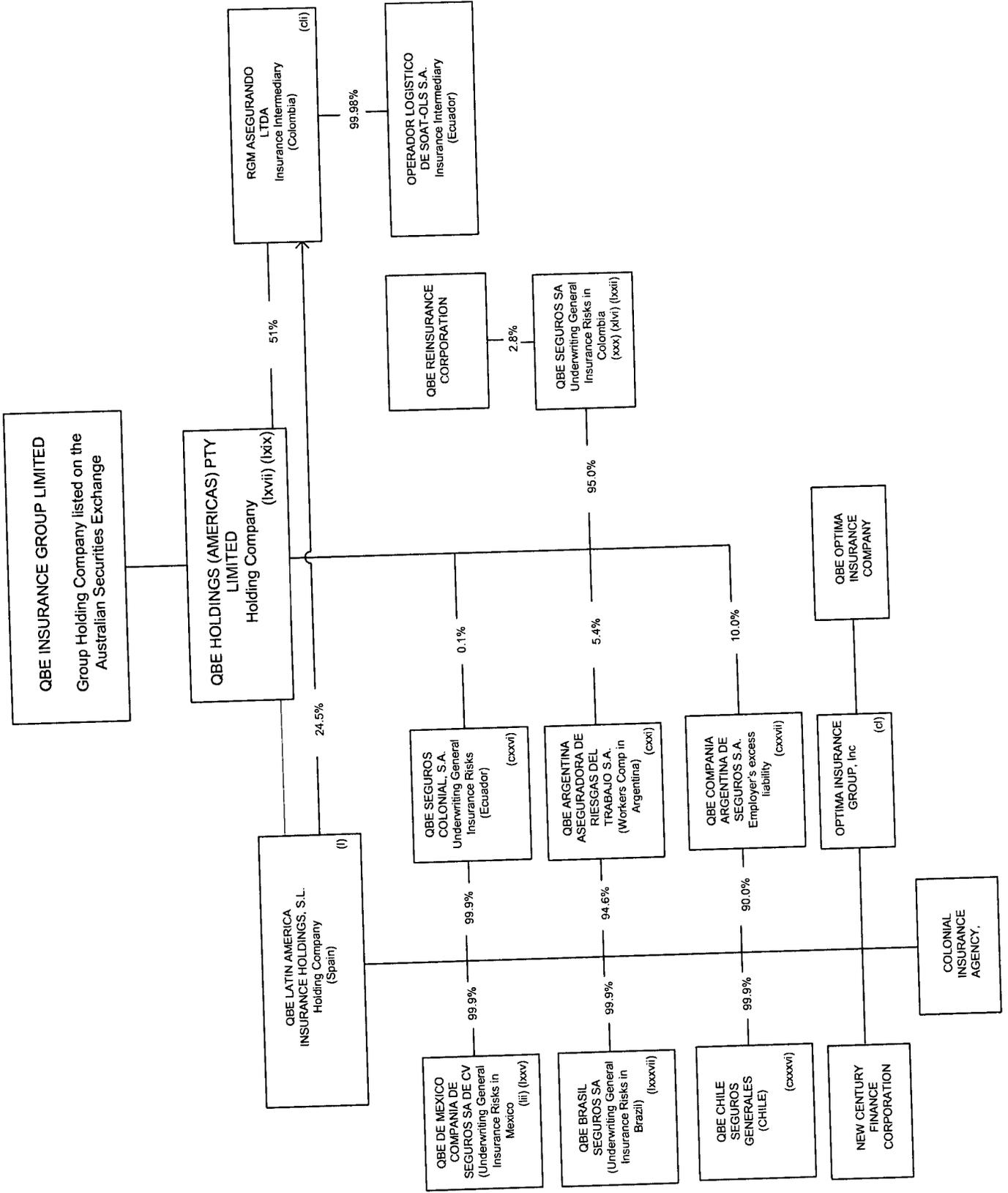
On August 1, 2005, the Company appointed its affiliate, Colonial Insurance Agency, Inc., (Colonial) as general agent. Pursuant to the terms of the agency contract, Colonial shall receive the premium in a fiduciary capacity and shall make no deductions therefrom before paying the same to the Company, except for the commissions authorized in writing to be deducted by it, and shall make no personal use of such funds, either in paying expenses of the agency or otherwise.

Additionally, the agreement stated that the balance shown on account current to be due Company, shall be paid by Colonial within sixty (60) days after the closing date for which the account was rendered. If remittance is not made on or before due date, the balance owed will accrue interest at a daily rate.

For the period under review, it was noted, that Colonial has been found to be in violation of the agreement and the Company has not taken any supervision or disciplinary action against Colonial. The Company should be revising its general agent agreement with Colonial and enforcement procedures to bring it into compliance with the Insurance Code of Puerto Rico.

In addition, the Company had an arrangement with Colonial whereby Colonial provides services related to claims adjustment. Pursuant to SSAP No. 25, Paragraph 6 of the NAIC Accounting Practices and Procedures, all transactions between related parties must be in the form of a written agreement. The Company failed to comply with SSAP No. 25 Paragraph 6. The Company should be formalizing an agreement and settle its obligations under the agreement.

As mentioned above, the Company was a member of an insurance holding company system. A simplified organizational chart as of June 30, 2012, reflecting the holding company system, is shown in the next page.



REINSURANCE

As of December 2011, the Company maintained several reinsurance contracts. The reinsurance contracts reviewed complied with NAIC guidelines with respect to the arbitration clause, transfer of risk, reporting, and insolvency clause.

Pursuant to Section 4.120(1) of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005 of April 11, 2005, the Company must obtain prior written approval from the Commissioner before ceding to an unauthorized reinsurer the total or part of its risks. For the period under review, the Company ceded business to Torus Insurance, UK which was not authorized in Puerto Rico. The Company did not comply with Section 4.120(1) of the Insurance Code and Ruling Letter N-AF-4-63-2005 of April 11, 2005.

Rule 97 Section 5 of the Regulations of the Insurance Code of Puerto Rico, requires that transactions between a reinsurance intermediary and the insurer may be carried out further to written authorization, whether a Broker of Record Letter or similar agreement, specifying the responsibilities of the parties. The authorization must be filed with the Commissioner. The Company failed to obtain a written authorization with the Commissioner.

Additionally, Rule 97 Section 7(C) requires that the insurer annually obtain a copy of statements of the financial condition of each reinsurance intermediary with which it transact business. For the period under review, it was noted, that the Company did not obtain copy of statements of financial condition of each reinsurance intermediary.

RETIREMENT BENEFITS

Effective May 1, 2010, the Company sponsors a qualified defined contribution plan (Plan) which provides retirement benefits to eligible employees. Participants are allowed to contribute up to ten (10%) of their pre-tax salary, not exceeding the maximum deferral amount specified by local law. The Company matches 50% of the first 6% of base compensation that the participant contributes to the Plan. The Company's contributions to the plan for the years ended December 31, 2011 and 2010 amounted to approximately \$29,800 and \$19,000, respectively.

FIDELITY BONDS

The Company maintained fidelity bond coverage up to \$450,000, which adequately covered the suggested minimum recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage.

CATASTROPHE RESERVE

In accordance with Chapter 25 of Insurance Code, as amended, the Company is required to establish and maintain a reserve supported by a trust fund for the payments of catastrophe losses. The establishment of this trust fund increases the financial capacity in order to offer protection for those insurers exposed to catastrophe losses. This trust may invest its funds in securities authorized by the Insurance Code, but not in investments whose value may be affected by hazards covered by the catastrophe insurance losses. The interest earned on these investments and any realized gain (loss) on investment transactions becomes part of the reserve for catastrophe insurance losses. The assets in this fund will be used solely and exclusively to pay catastrophe insurance

losses covered under policies written in Puerto Rico, upon approval by the Commissioner. The Company is required to make deposits to the trust fund, if any on or before January 30 of the following year. Contributions to be deposited in the trust fund are determined by applying a contribution rate, not in excess of 5%, to catastrophe written premiums as instructed annually by the Commissioner, unless the balance of the reserve exceeds 8% of the catastrophe exposure, as defined by Chapter 25. The Company deposited in January 2011 and 2010 the amount of \$285,200 and \$215,939 respectively.

ACCOUNTS AND RECORD

The Company maintained its principal operational offices in San Juan, Puerto Rico, where this examination was conducted. An independent CPA audited the Company's statutory basic financial statements for the year 2011, in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Towers Watson.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position and results of its operations. These statements are the same filed in the annual statement as of December 31, 2011 and 2010:

QBE Optima Insurance Company

Balance Sheet

As of December 31, 2011 and 2010

	YEARS	
	2011	2010
ASSETS		
Bonds	\$24,497,231	\$27,673,080
Common Stocks	2,946,797	2,489,143
Mortgage Loans – First liens	300,000	0
Real Estate	3,810,284	3,757,638
Cash and Cash Equivalents	10,286,941	7,562,370
Investment Income Due and Accrued	203,307	275,645
Uncollected Premiums	4,012,961	3,059,342
Amounts Recoverable from Reinsurers	1,083,007	604,654
Net Deferred Tax Asset	21,818	8,792
Electronic Data Processing	119,484	134,071
Receivables from parent, subsidiaries & affiliate	1,137,122	572,796
Total Assets	\$48,418,952	\$46,137,531
LIABILITIES		
Losses	\$2,973,024	\$2,663,406
Reinsurance Payable on paid losses	14,708	175,943
Loss Adjustment Expenses	435,942	423,133
Commission Payable,	39,118	68,399
Other Expenses	386,458	338,235
Taxes, licenses and fees	17,470	17,939
Unearned Premiums	14,515,572	14,369,532
Advance Premiums	12,936,390	13,480,218
Ceded Reinsurance Premium Payable	1,677,581	2,346,086
Amount withheld or Retained by Company	5,291	30,773
Payable to parent, subsidiaries & affiliates	5,069	0
Payable for securities	6,324	1,457,903
Aggregate write-ins for Liabilities	0	215,939
Total Liabilities	\$33,012,947	\$35,587,506
CAPITAL		
Common Capital Stock	\$3,500,000	\$3,000,000
Aggregate write-ins for special funds	285,200	0
Gross Paid and Contributed Surplus	10,500,000	7,000,000
Unassigned Funds	1,120,804	550,025
Capital and Surplus	\$15,406,004	\$10,550,025
Total Liabilities, Surplus and other Funds	\$48,418,951	\$46,137,531

QBE Optima Insurance Company
Statement of Income
As of December 31, 2011 and 2010

	2011	2010
Premiums earned	\$18,382,041	\$17,676,884
Deductions		
Losses incurred	9,391,335	9,598,700
Loss adjustment expenses incurred	1,667,538	1,356,132
Other underwriting expenses incurred	<u>7,585,074</u>	<u>6,910,543</u>
Total underwriting deductions	18,643,947	17,865,375
Net underwriting gain (loss)	(261,906)	(188,491)
INVESTMENT INCOME		
Net investment income earned	1,173,079	1,280,391
Net realized capital gains (losses)	<u>207,499</u>	<u>260,393</u>
Net gain (loss)	1,380,578	1,540,784
OTHER INCOME		
Finance and service charges not included in premiums	<u>34,579</u>	<u>17,282</u>
Total other income	34,579	17,282
Net income before dividends to policyholders	1,153,251	1,369,575
Federal and foreign income taxes incurred	126,789	0
Net Income	<u>\$1,026,462</u>	<u>\$1,369,575</u>

QBE Optima Insurance Company**Cash Flows**

As of December 31, 2011 and 2010

	2011	2010
CASH FROM OPERATIONS		
Premium Collected net of Reinsurance	\$16,361,897	\$23,027,776
Net Investment Income	1,554,719	1,475,878
Miscellaneous Income	34,579	17,282
	\$17,951,195	\$24,520,936
Benefit and Loss Related Payments	9,721,304	9,050,505
Commissions, Expenses paid for Deduction	9,141,784	8,005,182
Federal and Foreign Income Taxes Paid	126,789	0
	18,989,877	17,055,687
Net cash from Operations	(1,038,682)	7,465,249
CASH FROM INVESTMENTS		
Proceeds from Investment:		
Bonds	12,708,931	13,544,323
Stocks	166,824	179,400
Net Losses	0	(5,880)
Miscellaneous	1	1,700
	12,875,756	13,719,543
Cost of Investments Acquired		
Bonds	9,578,799	14,652,125
Stocks	530,492	2,419,638
Mortgage Loans	300,000	0
Real Estate	105,743	1,416,213
Miscellaneous	1,451,579	0
	11,966,613	18,487,976
Net cash from Investments	\$909,143	(\$4,768,433)
CASH FROM FINANCING & MIS. SOURCE		
Capital and paid in surplus	4,000,000	
Dividends to stockholders	358,333	
Other cash provided	(787,557)	291,511
Net cash from Financing & Mis. Source	\$2,854,110	\$291,511

QBE Optima Insurance Company
Comparative Analysis of Changes in Surplus
As of 31 de diciembre de 2011

The following is a reconciliation of Unassigned Funds between that reported by the Company and as determined by the examination.

	Examination Adjusted Decrease	BALANCE
Unassigned Funds per Annual Statement		\$1,120,804
ASSETS:		
Receivables from Parent, Subsidiaries & Aff.	\$1,137,122	
	\$1,137,122	
Total		(1,137,122)
Unassigned Funds per Examination		(\$16,318)

Comments on the Financial Statements

**Receivables from parent, subsidiaries and affiliates
Unassigned Surplus**

The Company improperly reported amount due from affiliates. These balances should have been reported as non-admitted assets as required SSAP No. 25 Paragraph 6 of the NAIC Accounting Practices and Procedures. The adjustments to these accounts in the financial statement adjust the balances to properly non-admit these balances.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

MANAGEMENT & CONTROL

- The Company failed to comply with Section 5(D) of Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico. The Company did not designate its audit committee.
- The Company failed to notify the Commissioner the appointment of a producer as authorized representative. The Company did not comply with Section 9.063(2) of the Insurance Code of Puerto Rico.

REINSURANCE

- Section 4.120 of the Insurance Code of Puerto Rico and Ruling Letter N-AF-463-2005 require that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the Commissioner. The Company ceded business to Torus Insurance, UK which was not authorized in Puerto Rico. The Company did not obtain prior approval from the Commissioner. The Company failed to comply with Section 4.120 of the Insurance Code of Puerto Rico and Ruling Letter N-AF-463-2005.
- The Company did not obtain copy of statement of financial condition of each reinsurance intermediary with which it transacts business. The Company failed to comply with Rule 97 Section 7(C) of Regulations of the Insurance Code of Puerto Rico.
- The Company failed to file a written authorization or similar agreement with the Commissioner related to reinsurance intermediary. The Company failed to comply with Rule 97 Section 5 of Regulations of the Insurance Code of Puerto Rico.

INTERCOMPANY

- The Company is party to sharing arrangements with affiliates. These arrangements are not in the form of written agreements as required by SSAP No. 25 Paragraph 6 of the NAIC Accounting Practices and Procedures. The Company failed to comply with establishing in SSAP No. 25
- Pursuant to SSAP No. 25 of the NAIC Accounting Practices and Procedures, all transactions between related parties must be in the form of a written agreement. The Company failed to comply with SSAP No. 25 and it should be formalizing an agreement and settle its obligations under the claim adjustment agreement.
- The Company failed to comply with SSAP No. 4 of the NAIC Accounting Practices and Procedures. The Company report amount over ninety day due.

CORPORATE RECORDS

- The Company failed to comply with Section 6.040(2) of the Insurance Code of Puerto Rico. The Board did not approve the investment activities of the Company.
- The Company failed to comply with Section 29.220(1) of the Insurance Code of Puerto Rico. For the period under review, the Company's Board of Director has not approved salary, compensation or emoluments.
- The Company did not comply with Section 6.040(3) of the Insurance Code of Puerto Rico. The Company's Board of Directors or authorized committee did not receive and review a summary report of the investment portfolio at least every three months.
- The Company was not compliance with Section 6.040(1) of the Insurance Code of Puerto Rico. The Company's investment plan do not established the professional qualifications of the persons who will make routine decisions of the investment.
- The Company failed to comply with Section 27.230(3) of the Insurance Code of Puerto Rico. The Company's Antifraud Plan not included a description of the personnel hired or employed to execute the procedures to detect and investigate acts of fraud.
- The Company shall be exercise due care in obtaining and maintaining signed conflict of interest questionnaires from its board of directors, officers and key employees, pursuant Section 29.230 of Insurance Code of Puerto Rico.
- The Company failed to comply with Section 27.160 and 38.160 of the Insurance Code of Puerto Rico, to recover from its insured an amount in excess of the sums paid to Guaranty Association.
- The Company failed to comply with Rule IX of the Regulations and Section 3.300 of Insurance Code of Puerto Rico, because it not separate properly records and accounts related with JUA.

SALVAGE & RECOVERIES

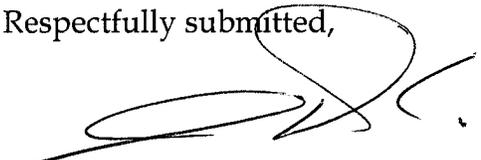
- The Company failed to comply with Rule LIII Section 4(A) of the Regulations of Insurance Code of Puerto Rico. The Company did not inform to the Office of the Commissioner arrangements for the custody and stores of the salvages.
- The Company did not comply with Rule LIII Section 5(D) of the Regulations of Insurance Code of Puerto Rico. The Company failed to file with the Commissioner notices relating with its auctions.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of QBE Optima Insurance Company as of December 31, 2011, consistent with the insurance laws of Puerto Rico.

Per examination finding, the Company Unassigned Funds was (\$16,318) in compliance with Insurance Code of Puerto Rico. In addition to the undersigned, Mrs. Yajaira Torres Martínez, Examiner Technician, who participated in the examination.

Respectfully submitted,



Yoani Ditrén Acosta
Examiner